

Message Text

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PAGE 01 PARIS 13962 01 OF 03 121159Z

41

ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 0834

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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UNCLAS SECTION 01 OF 03 PARIS 13962

PASS TREASURY AND FEDERAL RESERVE AND COMMERCE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 12510, APRIL 29, 1976

1. SUMMARY: FRANCE'S ECONOMIC OUTLOOK CONTINUES TO
IMPROVE IN TERMS OF GROWTH PROSPECTS FOR 1976, LEADING
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PAGE 02 PARIS 13962 01 OF 03 121159Z

FINMIN FOURCADE TO PROCLAIM FRENCH ECONOMIC RECOVERY

AS ONE OF FOUR STRONGEST IN WORLD. PRICE INFLATION AND UNEMPLOYMENT SITUATION HAVE YET TO SHOW MUCH IMPROVEMENT, HOWEVER, AND GOF CONTINUES TO WORRY ABOUT FRANCE'S FOREIGN-TRADE BALANCE. SOME RECENT GAINS SHOWN IN LEVEL OF CAPACITY-UTILIZATION IN FRENCH INDUSTRY, BUT OVERALL INVESTMENT OUTLOOK FOR 1976 APPEARS LITTLE BETTER THAN THAT IN 1975. IN APPARENT EFFORT TO CONTAIN GROWTH IN MONEY SUPPLY AS ECONOMY RECOVERS, FRENCH MONETARY AUTHORITIES HAVE EXTENDED RESTRICTIONS ON GRANTING OF CREDITS TO THE ECONOMY THROUGH REMAINDER OF 1976. END SUMMARY.

2. GROWTH PROSPECTS BRIGHTEN BUT INFLATION, UNEMPLOYMENT STILL THREATENING -

OUTLOOK FOR FRENCH ECONOMY IN 1976, AS DETAILED MAY 6 IN SPECIAL REPORT BY INSEE (NATIONAL STATISTICS INSTITUTE), IS FOR REAL GROWTH ON THE ORDER OF NEARLY 13 PERCENT AT ANNUAL RATE DURING FIRST HALF, FOLLOWED BY MORE NORMAL REAL GROWTH RATE OF 4 TO 5 PERCENT ANNUALLY DURING SECOND HALF OF YEAR. THIS IMPLIES FRENCH ECONOMIC GROWTH BETWEEN 5 AND 6 PERCENT OR 1976 AS A WHOLE. ACCORDING TO INSEE, INDUSTRIAL OUTPUT SHOULD RETURN TO PRE"RECESSION LEVELS BY JUNE (IMPLYING 7.7 PERCENT RISE IN INDUSTRIAL"PRODUCTION INDEX OVER COURSE OF FIRST HALF 1976).

WHILE STRONG ECONOMIC RECOVERY THUS APPEARS LIKELY FDR 1976, INSEE NEVERTHELESS SEES LITTLE HOPE FOR SIGNIFICANT REDUCTIONS IN LEVEL OF UNEMPLOYMENT DURING CURRENT YEAR; IN PARTICULAR, PROCESS OF RESTORING NORMAL WORKING HOURS FOR EXISTING LABOR FORCE IS EXPECTED TO PRECLUDE ANY NEW HIRING FOR TIME BEING.

ONE WEEK PREVIOUSLY, PARIS CHAMBER OF COMMERCE AND INDUSTRY ISSUED ITS REPORT ON FRENCH ECONOMIC SITUATION AND OUTLOOK, CONFIRMING THAT HIGHER LEVEL OF OUTPUT HAS NOT RESULTED IN IMPROVEMENT OF LABOR"MARKET CONDITIONS, AND ADDING THAT INFLATIONARY PRESSURES REMAIN STRONG. REVIVAL IN INDUSTRIAL OUTPUT SINCE BEGINNING UNCLASSIFIED

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PAGE 03 PARIS 13962 01 OF 03 121159Z

OF YEAR LINKED TO IMPROVING EXPORT PROSPECTS AND TO COMPLETION OF INVENTORY LIQUIDATIONS IN INTERMEDIATE-GOODS SECTOR.

HOUSEHOLD CONSUMPTION, ACCORDING TO CHAMBER REPORT, SHOWED "MODERATION" IN FEBRUARY AND MARCH AFTER JANUARY UPSURGE. (MONTHLY ECONOMIC JOURNAL "L'EXPANSION" CONFIRMED THIS POINT, ESTIMATING 7 PER-

CENT DECLINE IN SEASONALLY-ADJUSTED CONSUMPTION OF INDUSTRIAL PRODUCTS BETWEEN JANUARY AND MARCH, BRINGING AVERAGE LEVEL FOR FIRST QUARTER 1976 SLIGHTLY BELOW THAT FOR FOURTH QUARTER 1975.) CHAMBER OF COMMERCE ADDED THAT FRENCH EXPORTS HAVE REGISTERED "ACCELERATING GROWTH" AND, THUS FAR IN 1976, DEPRECIATION IN FOREIGN-EXCHANGE VALUE OF FRENCH FRANC HAS HAD "NO APPARENT EFFECT ON OUR POSITION IN MARKETS ABROAD."

ON MAY 3, FINANCE MINISTER FOURCADE TOOK DUE NOTE OF BRIGHTENING GROWTH PROSPECTS FOR FRENCH ECONOMY IN 1976, PROCLAIMING FRANCE TO BE "AMONG THE FOUR COUNTRIES IN THE WORLD EXPERIENCING THE STRONGEST RECOVERY.) HE

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PAGE 01 PARIS 13962 02 OF 03 121202Z

41

ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00

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UNCLAS SECTION 02 OF 03 PARIS 13962

NEVERTHELESS GAVE HIS CUSTOMARY WARNING -- FRANCE
CANNOT ACHIEVE DURABLE RECOVERY AND RETURN TO FULL
EMPLOYMENT UNLESS PRICE INFLATION IS MASTERED, UNLESS
FIRMS ARE GIVEN THE MEANS TO COMPETE FREELY,
AND UNLESS FRENCH EXPORTS KEEP PACE WITH IMPORTS.

3. INVESTMENT OUTLOOK, CAPACITY UTILIZATION SHOW
MARGINAL IMPROVEMENT --
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PAGE 02 PARIS 13962 02 OF 03 121202Z

SURVEY OF INVESTMENT ACTIVITY IN FRENCH INDUSTRY,
CONDUCTED BY INSEE REPORTED REAL DECLINE OF 4 PERCENT
IN INDUSTRIAL INVESTMENT EXPENDITURES DURING 1975. (IF
INSEE FIGURE IS ACCURATE, IT REPRESENTS SUBSTANTIAL
IMPROVEMENT OVER MINUS 10 PERCENT FIGURE FOR 1975,
INDICATED IN SIMILAR SURVEY LAST NOVEMBER. DIFFERENCE
IS ATTRIBUTED BY INSEE TO FIRMS' RESPONSE TO YEAR-END
PROGRAM OF INVESTMENT INCENTIVES OFFERED BY GOF.) IN
NOMINAL TERMS, INVESTMENT SPENDING ROSE 6 PERCENT IN
1975, WITH AVERAGE INCREASE OF 9.6 PERCENT IN PRICES
FOR CAPITAL EQUIPMENT.

ACCORDING TO SURVEY RESPONDENTS, NOMINAL EXPENDI-
TURES ON CAPITAL INVESTMENT BY FRENCH INDUSTRY EXPECTED
TO RISE BY "NO MORE THAN 6 PERCENT" IN 1976, COMPARABLE
TO INCREASE IN 1975. AVERAGE NOMINAL INCREASE EXPECTED
TO BE 7 PERCENT IN INTERMEDIATE-GOODS AND CAPITAL-
EQUIPMENT SECTORS, 2 PERCENT IN CONSUMER-GOODS
INDUSTRIES. WITH AVERAGE PRICE INCREASE FOR CAPITAL
EQUIPMENT PROJECTED AT 8.3 PERCENT IN 1976, A DECLINE
IN REAL INVESTMENT SPENDING APPEARS LIKELY IN 1976,
ALTHOUGH OF LESSER MAGNITUDE THAN LAST YEAR.

NOTE: SCOPE OF INSEE SURVEY COVERS ONLY PRIVATE
INDUSTRIAL FIRMS AND SOME "COMPETITIVE" PUBLIC ENTER-
PRISES; IT DOES NOT COVER BUILDING AND PUBLIC-WORKS
SECTORS, TRANSPORTATION AND COMMUNICATIONS, COMMERCE,
OR AGRICULTURE, AND THUS ACCOUNTS ONLY FOR SOME TWO-
FIFTHS OF TOTAL EXPENDITURES IN FRANCE ON PLANT AND
EQUIPMENT.

ALSO REPORTED IN INSEE SURVEY WAS EXPECTATION THAT

PRODUCTIVE CAPACITY IN FRENCH INDUSTRY WILL INCREASE ABOUT 4 PERCENT IN 1976 -- ROUGHLY THE SAME AS IN 1975, BUT MUCH LESS THAN 7 TO 8 PERCENT INCREASES RECORDED IN PRECEDING YEARS. SURVEY RESPONDENTS INDICATED A SMALL INCREASE IN NEW HIRING (PROBABLY LESS THAN 1 PERCENT) IS LIKELY IN 1976, COMPARED TO ESTIMATED 3 PERCENT DECLINE IN 1975. FINALLY, OVERALL LEVEL OF CAPACITY UTILIZATION IN FRENCH INDUSTRY APPEARED TO HAVE

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PAGE 03 PARIS 13962 02 OF 03 121202Z

INCREASED SOMEWHAT BETWEEN NOVEMBER AND MARCH, WITH PROPORTION OF FIRMS OPERATING BELOW CAPACITY HAVING DECLINED FROM 85 PERCENT TO 83 PERCENT.

4. OFFICIAL CREDIT CEILINGS EXTENDED THROUGH SECOND HALF --

FRENCH MONETARY AUTHORITIES HAVE MOVED TO TIGHTEN THEIR GRIP ON CREDITS TO THE ECONOMY IN AN APPARENT EFFORT TO FORESTALL RUNAWAY INFLATIONARY PRESSURES IN LATTER PART OF 1976. ON APRIL 29, FINANCE MINISTRY ANNOUNCED CEILINGS ON BANK LENDING TO APPLY DURING SECOND HALF OF YEAR; BASED ON INDEX OF 100 FOR LEVELS AT END DECEMBER 1974, BANKS AUTHORIZED TO INCREASE LENDING TO A MAXIMUM OF 117 AT END OF DECEMBER. (UNDER EXISTING RULES, INCREASE IN BANK LENDING DURING FIRST HALF OF 1976 ALLOWED UP TO INDEX OF 113 AT END-JUNE, UP FROM 108 AT END-DECEMBER 1975. MAXIMUM PERMISSIBLE GROWTH IN CREDITS DURING 1976 THUS WORKS OUT TO 8.3 PERCENT OVERALL.) VOLUME OF CREDITS GRANTED BY BANKS DURING SECOND HALF 1976 WILL BE ALLOWED TO RISE BY FF 22 BILLION -- COMPARED TO A PERMITTED INCREASE OF FF 56 BILLION BETWEEN OCTOBER 1975 AND JUNE 1976. ACCORDING TO OFFICIAL RATIONALE, NEW CREDIT RESTRICTIONS ARE DESIGNED TO PROVIDE SUFFICIENT FINANCIAL HEADROOM FOR FRENCH ECONOMIC RECOVERY, WHILE AVOIDING INFLATIONARY CONSEQUENCES BY KEEPING SECOND-HALF INCREASE IN MONEY SUPPLY WITHIN RANGE OF NOMINAL INCREASE IN TOTAL OUTPUT.

5. BUDGET EXPENDITURES SET AT FF 333 BILLION FOR 1977 --

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PAGE 01 PARIS 13962 03 OF 03 121155Z

41

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UNCLAS SECTION 03 OF 03 PARIS 13962

FOLLDWING MAY 5 CABINET MEETING, GOF SPOKESMAN
ANNOUNCED DECISION TO HOLD EXPENDITURES UNDER 1977
BUDGET TO FF 333 BILLION, A NOMINAL INCREASE OF
13.2 PERCENT FROM PROJECTED 1976 BUDGETARY EXPENDITURES
OF FF 294 BILLION. AS REPORTED PARIS 4622, CY 1977
BUDGET EXPECTED TO CONTINUE NOMINALLY-NEUTRAL FISCAL
POLICY CURRENTLY IN FORCE, AND TO MAINTAIN AT PRESENT
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PAGE 02 PARIS 13962 03 OF 03 121155Z

LEVELS THE SHARE OF PUBLIC-SECTOR SPENDING IN GNP.
FURTHER REFINEMENTS OF BUDGET PACKAGE WILL BE MADE IN
COMING MONTHS, PRIOR TO PARLIAMENTARY PRESENTATION
IN SEPTEMBER.

6. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS:

12570 FRENCH ECONOMIC POLICY IN 1976 4/29/76

12927 FRENCH CREDIT MEASURES TO
PROMOTE EXPORTS 5/3/76

13165 FRENCH ECONOMIC POLICY DURING
1976: CAN GISCARD KEEP HIS
BALANCE ON THE TIGHTROPE? 5/5/76

AIRGRAMS:

A-207 FRENCH FOREIGN EXCHANGE HOLDINGS 4/30/76

A-212 SUMMARY OF BUSINESS LEADER
OPINION 5/4/76
GAMMON

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